

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ISO-00 L-03 FRB-03 OMB-01 ITC-01
SP-02 USIA-06 AGRE-00 AID-05 CIAE-00 COME-00
INR-10 IO-13 LAB-04 NSAE-00 OIC-02 SIL-01 STR-07
TRSE-00 CEA-01 SS-15 /093 W
-----070002 110948Z /10

R 101220Z MAR 78
FM AMEMBASSY ACCRA
TO SECSTATE WASHDC 2592
INFO AMEMBASSY ABIDJAN
AMEMBASSY LAGOS
AMEMBASSY LOME

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LAGOS FOR AGATT

E.O. 11652: N/A
TAGS: ETRD, EAID, EAGR, GH
SUBJ: GHANA: COCOA SITUATION AND OUTLOOK: UPDATE

REF: (A) 77 ACCRA 7731; (B) ACCRA A-4

1. SUMMARY. WITH THE CURRENT COCOA SEASON NOW WELL UNDER WAY, OUR ESTIMATES OF PRODUCTION AND EXPORT EARNINGS REMAIN ABOUT AS REPORTED REFTEL (A). OUR EARLIER CONCLUSIONS, CONCERNING THE SITUATION AND OUTLOOK AND IMPLICATIONS FOR US POLICY REMAIN GENERALLY VALID, NAMELY THAT DESPITE DECLINING PRICES, A SECOND YEAR OF HIGH COCOA EARNINGS LEAVES GHANA'S PRESENT GOVERNMENT RELATIVELY FREE TO PURSUE ECONOMIC POLICIES INDEPENDENT OF INTERNATIONAL DONOR RECOMMENDATIONS FOR CHANGES NECESSARY TO LAY THE BASIS FOR SUSTAINED ECONOMIC GROWTH AND IMPROVE THE CLIMATE FOR US BUSINESS HERE. HOWEVER, A COMBINATION OF INTERNAL AND EXTERNAL DISSATISFACTION WITH GOG MISMANAGEMENT

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OF THE ECONOMY COULD LEAD TO SOME CHANGE. END SUMMARY.

2. THE 1977/78 (OCTOBER 1 TO SEPTEMBER 30) COCOA YEAR IS NOW ALMOST HALF OVER AND THIS MESSAGE UPDATES THE INFORMATION PROVIDED REFTEL (A), ON THE BASIS OF CONVERSATIONS WITH EXPATRIATE AND GHANIAN OFFICIALS/OBSERVERS CONCERNED WITH COCOA.

3. 1977/78 PRODUCTION. TOTAL GHANAIA COCOA PRODUCTION IS STILL ESTIMATED AT 320,000 METRIC TONS (MT). THE MAIN CROP (HARVESTED GENERALLY FROM OCTOBER TO MARCH), WILL BE NO LESS THAN 310,000 MT. NEXT SUMMER'S MID-CROP IS EXPECTED TO BE AT LEAST 10,000 MT AND SHOULD GHANA GET EXCEPTIONAL WEATHER, COULD REACH 30,000 MT OR MORE.

4. 1977/78 MAIN CROP. THE MAIN CROP WAS LATE THIS YEAR. RAINFALL WAS EXCELLENT IN AMOUNT AND SPACING, BUT A MONTH OR SO LATER THAN NORMAL. CONSEQUENTLY, THE HARVESTING, TRANSPORT TO THE PORTS, SHIPMENT, AND PAYMENT RECEIPTS FOR COCOA ARE ALL LATER THAN NORMAL. OVERALL PRODUCTION WILL MARGINALLY EXCEED THE 1976/77 LEVEL.

5. SMUGGLING. ABIDJAN SOURCES REPORT SMUGGLING OF 40,000 TO 50,000 MT THIS YEAR, A FIGURE IN LINE WITH GHANA'S COCOA AFFAIRS COMMISSIONER, CAPTAIN KYEREMEH'S ANNOUNCEMENT OF 50,000 MT (77 ACCRA 9476). WE BELIEVE THESE AMOUNTS MAY BE EXAGGERATED, BUT NO OBSERVER HERE PLACES 1977/78 TOTAL SMUGGLING AT LESS THAN 20,000 MT.

6. EXPORTS. OUR SEPARATE PIECES OF INFORMATION ON EXPORTS VARY CONSIDERABLY. OUR BEST ESTIMATE IS THAT THROUGH END-JANUARY SOME 65,000 MT TO 67,000 MT WERE CONTRACTED FOR SHIPMENT AND 45 TO 47,000 MT ACTUALLY LIMITED OFFICIAL USE

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SHIPPED. THE AVERAGE PRICE PAID, WAS PROBABLY BETWEEN DLS 3,200 AND DLS 3,300 PER MT. THUS, TO DATE, GHANA HAS EARNED OVER DLS 200 MILLION. THE SPOT PRICE HAS FALLEN FROM LAST SUMMER'S HIGH (WHICH TOUCHED DLS 6,000/MT) TO ABOUT DLS 2,800/MT IN JANUARY AND IS EXPECTED TO CONTINUE TO DECLINE SO THAT UPCOMING CONTRACTS WILL NOT EARN SO MUCH. INDEED GHANA MAY HAVE MISSED A CHANCE FOR LARGER SALES EARNINGS EARLIER. NEVERTHELESS, WE EXPECT TOTAL 1977/78 SALES OF OVER 300,000 MT WILL EARN GHANA NO LESS THAN DLS 800 MILLION (SOME OBSERVERS' ESTIMATES STILL REMAIN ABOVE DLS 900 MILLION), THIS COMPARES WITH OUR EARLIER (REFTEL A) ESTIMATE OF DLS 875 MILLION. TOTAL FOREIGN EXCHANGE EARNINGS WILL CERTAINLY EXCEED DLS ONE BILLION.

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LAGOS FOR AGATT

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7. IMPLICATIONS FOR GHANA (A) HIGH EARNINGS IN 1978.
COCOA EXPORT EARNINGS IN 1977/78 WILL GIVE GHANA ITS
SECOND CONSECUTIVE YEAR OF HIGH FOREIGN EXCHANGE EARNINGS.
AS NOTED IN OUR A-4, FOREIGN EXCHANGE OVER THE YEAR IS NOT
SCARCE IN GHANA. (B) BUT DELAYED PAYMENTS THE FOREIGN
EXCHANGE IS NOT, HOWEVER, BEING RECEIVED AS EARLY THIS
COCOA SEASON AS NORMAL. TYPICALLY, COCOA IS SOLD FOR-
WARD, WITH PAYMENTS RECEIVED WHEN THE COCOA IS ACTUALLY
SHIPPED. THIS MEANS THAT GHANA'S FOREIGN EXCHANGE
EARNINGS ARE BUNCHED FROM DECEMBER THROUGH NOVEMBER AND
DECEMBER 1976 SHIPMENTS TOTALLED 28,200 MT, WHILE THE
TOTAL FOR THESE MONTHS IN 1971 WAS ONLY 14,443 MT. (C) HENCE,
SOME COCOA SALES DISCOUNTED. THESE LATER THAN NORMAL
SHIPMENTS, AND HENCE LATER THAN ANTICIPATED PAYMENTS,
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PROBABLY EXPLAIN THE GOG DECISION IN DECEMBER TO DISCOUNT
SOME COCOA BILLS WITH FOREIGN BANKS. NORMALLY, GHANA DOES
NOT DISCOUNT COCOA CONTRACTS, BUT IN DECEMBER CONTRACTS
FOR SEVERAL THOUSAND MT, WORTH ANYWHERE FROM DLS 50 TO
OVER 100 MILLION WERE DISCOUNTED, THEREBY BRINGING IN
FOREIGN EXCHANGE WHICH OTHERWISE WOULD HAVE BEEN RECEIVED
ONLY LATER IN THE SEASON. (D) APPARENT FOREIGN EXCHANGE

SHORTAGE EXPLAINED. DESPITE A TEMPORARY PAYMENTS DELAY, GHANA'S FOREIGN EXCHANGE EARNINGS IN CY 1978 WILL BE NEAR THE RECORD KGH CY-1977 LEVEL (COCOA ACCOUNTS FOR FIVE-EIGHTS OR MORE OF EXPORT REVENUES) AND THE "SHORTAGE" OF FOREIGN EXCHANGE OVER THIS PERIOD AS A WHOLE CANHUE EXPLAINED ONLY BY MISMANAGEMENT AND MACRO-THIEVERY, AS NOTED REFTEL (A).

8. IMPLICATIONS FOR THE US. THESE REMAIN LARGELY AS SPELLED OUT IN REFS (4) AND (B). (A). DONOR LEVERAGE LIMITED IN CY 1978. GHANA'S RECEIPTS ARE ADEQUATE FOR THE GOG TO PAY ITS OWN WAY INTERNATIONALLY IN CY 1978, WHICH WOULD ENABLE THE PRESENT GOVERNMENT, SHOULD IT WISH TO DO SO, TO PURSUE ECONOMIC POLICIES INDEPENDENTLY OF IMF AND IBRD RECOMMENDATIONS. THESE INTERNATIONAL FINANCIAL INSTITUTIONS HAVE STRESSED THE URGENT NEED FOR A "COMPREHENSIVE SET OF MEASURES" TO HALT INFLATION IN GHANA AND ENSURE AN ALLOCATION OF RESOURCES MORE CONDUCTIVE TO ECONOMIC GROWTH AND A SUSTAINED STRENGTHENING OF THE BALANCE OF PAYMENTS. DESPITE CURRENT GOG FOOD AID REQUESTS, GHANA WILL NOT PARTICULARLY NEED ADDITIONAL DONOR SUPPORT NOR NEED TO ACCEPT ECONOMIC POLICY ADVICE WHILE COCOA EARNINGS REMAIN HIGH. WHILE INTERNAL PRESSURES STEMMING FROM DISCONTENT OVER THE DETERIORATING ECONOMY, COULD FORCE POLICY INITIATIVES OR, THE GOVERNMENT ITSELF COULD DECIDE TO TACKLE THE SITUATION, EXTERNAL PRESSURES WILL NOT SUFFICE BY THEMSELVES TO BRING LIMITED OFFICIAL USE

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ABOUT SUCH INITIATIVES AT LEAST FOR ANOTHER YEAR OR SO. (WE DISCOUNT ANY POSSIBILITY THAT DONORS WOULD WITHDRAW EPPGOT FROM PROJECTS ALREADY APPROVED). (B) ADVERSE CLIMATE TO CONTINUE. THUS, THE PRESENT ECONOMIC POLICIES ANDNRESOURCE WASTE COULD WELL GO UNCHANGED THROUGH CY 1978 OR LONGER, WITH NO IMPROVEMENT IN THE INVESTMENT CLIMATE, THE OUTLOOK FOR REMITTANCES FOR US BUSINESSES, OR THE ENVIRONMENT IN WHICH OUR DEVELOPMENT EFFORTS ARE COMCTED. RISING DISATISFACTION ON BOTH THE PART OF GHANAIAAN CITIZENS ANBMDONORS WITH GOG MISMANAGEMENT OF THE ECONOMY COULD, HOWEVER, COMBINE TO PERSUADE THE GOG TO TAKE SOME NEEWD POLY INITIATIVES. (C) CY 1979 AND BEYOND. THE FALLING COCOA PRICE ANBVTHE ITLOOK FOR CONTINUING DECLINES IN GHANA'S PRODUCTION PRESAGE AN EARLY END TO SUCH HIGH EARNINGS AND RAISE THE LIKEIHOOD, WHOLLY APART FROM WHATEVER INTERNAL PRESSURES, FOR CHANGE MIGHT DEVELOP, THAT AN INCREASED DEPENDENCE ON DONOR SUPPORT WILL LEAD TO AN ENHANCED GOG WILLINGNESS, PERHAPS IN CY 1979, TO MAKE RECOMMENDED ECONOMIC POLICY CHANGES. SMITH

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